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Ji, Jiao; Talavera, Oleksandr; Yin, Shuxing

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# Frequencies of Board Meetings on Various Topics and Corporate Governance: Evidence from China

Jiao Ji (U Sheffield), Oleksandr Talavera (U Birmingham), Shuxing Yin (U Sheffield)

## ABSTRACT

This paper examines the relationship between numbers of topic-specific board meetings and quality of corporate governance. The quality of corporate governance is estimated by CEO turnover-performance and compensation-performance sensitivities. Information about topic-specific meetings is collected from the reports of independent directors of Chinese listed firms. We find that more-frequent discussions of growth strategies related to the use of IPO proceeds, investment and acquisitions increase CEO compensation-performance sensitivity. By contrast, more discussions about the nomination of directors and top management are likely to reduce the sensitivities of both CEO turnover and compensation to performance. Our findings shed light on what makes boards efficient, and how board monitoring of assorted decisions modifies the relationship between CEO interests and firm performance.

*JEL Classification:* G30; G34

*Keywords:* Board Effectiveness, Board Meeting Topics, CEO Dismissal, CEO Compensation, China

Note: Standard disclaimer applied. Corresponding author: Jiao Ji ([jiao.ji@sheffield.ac.uk](mailto:jiao.ji@sheffield.ac.uk)).

## **1. Introduction**

Board meetings, possibly the most directly observed board activity, are often advocated by the public and regulators as a way to enhance board effectiveness in public companies. Regulators (e.g., in the US, UK, India and China) often require listed companies to hold a minimum number of meetings every year. However, a high number of meetings does not necessarily suggest board functions well, owing to the fact that the topics of board meetings are diverse. At board meetings, various proposals (e.g., business strategy, risk oversight, CEO succession planning) are discussed by the directors. It is not the number of board meetings that indicates board's efforts in monitoring, but the ratification and monitoring of corporate proposals in board meetings, which help boards to monitor and assess CEOs (e.g. Fama and Jensen, 1983; Hermalin and Weisbach, 1998).

The monitoring of assorted types of proposals provides boards with channels for evaluating CEO and corporate performance. Boards of directors often have limited access to firm information (e.g., Adams and Ferreira, 2007; Jensen, 1993). At board meetings, they rely on the supplementary information in proposals to make decisions. This means that most additional information acquired by boards is proposal-based. The amount, range and complexity of the information largely influence board performance (e.g. Hermalin and Weisbach, 1998; Raheja, 2005). Board activities related to major proposals enhance the work efficiency of the directors as a group, as they involve exchanging information and interacting with each other (Lipton and Lorsch, 1992; Forbes and Milliken (1999). Thus, board activities related to various proposals represent board supervisory effectiveness in corresponding dimensions.

Boards of directors play a major role in mitigating agency problems associated with the separation between ownership and control (e.g., Fama and Jensen, 1983a,b; Jensen and

Meckling, 1976). Without boards' monitoring, management teams are more likely to take self-benefitting actions, and deviate from the interests of residual claimants. Agency models prescribe normative actions such that compensation is related to effort and performance, and boards fire poorly performing CEOs. CEO dismissal and compensation are the most important decisions made by boards of directors (Adams *et al.*, 2010; Hermalin, 2005; Hermalin and Weisbach, 2003). Therefore, the efficiency of these decisions indicates the effectiveness of the board's supervisory role in monitoring the CEO, and represents the quality of governance.

Our study provides new evidence of board effectiveness by looking into the black box of board meetings via various supervisory activities. We use number and types of meetings to proxy for board supervisory activities on assorted proposals. The CEO dismissal-performance relationship and compensation-performance relationship are used as proxies for quality of corporate governance, as widely applied in previous literature (e.g., Adams *et al.*, 2010; Gibson, 2003; Kato and Long, 2006a). We investigate the relationship between numbers of topic-specific board meetings and quality of corporate governance.

Observing board monitoring of different types of proposals is not straightforward, due to data confidentiality. Almost two decades ago, the China Securities Regulatory Commission (CSRC) introduced an innovative practice whereby independent directors were obliged to issue *Report[s] of the Independent Director* after board meetings.<sup>1</sup> The reports publicly disclose topics discussed at meetings and the opinions of the independent directors on these topics. This represents a novel approach to enriching corporate disclosure and board accountability in the decision-making process. From these reports, we are able to capture task-based board activities on six major topics, explicitly, personnel changes, compensation,

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<sup>1</sup> The Code of Corporate Governance for Listed Companies in China in 2001 and 2002.

financial reports and audit, firm control transactions, changes of equity structure, and growth strategies.

In China (as in many other emerging markets), the legal protection of investor rights and accounting standards are less developed than in Western countries. Evidence on CEO dismissal/compensation and firm performance based on Chinese data is less common, and the concrete factors of CEO contracting are yet to be established conclusively. Within the limited studies that do exist, the results are mixed (e.g., Conyon and He, 2012, 2014). Empirical studies focusing on board effectiveness in China often utilize the proportion of independent directors on the board or annual board meeting frequency as proxies for board monitoring. They document mixed results on whether increasing board monitoring benefits corporate governance (Peng, 2004; Chen, Firth, Gao, and Rui, 2006; Kato and Long, 2006a; Liu et al., 2015).

Our study focuses on the topics boards discuss during meetings, and provides new evidence on board effectiveness in China. We apply panel data techniques to explore the moderating effects of specific topics discussed at board meetings, on the sensitivity of CEO dismissal/compensation to performance. Furthermore, we extend our analysis with dynamic generalized method of moments (GMM) regressions to mitigate possible endogeneity issues. Our key findings show that CEO dismissal and compensation are related to firm performance in China, suggesting that the corporate governance mechanism is effective in contracting and monitoring executives. Pay-performance sensitivity is strengthened by additional board monitoring efforts involving discussions of firms' growth strategies (i.e. investments and acquisitions). In contrast, the relationships between CEO dismissal/pay and firm performance are weaker when there are more board activities on the nominations of directors and top management.

We also investigate whether effects of board activities vary under different ownership structures. The majority of China's listed firms are controlled by either state shareholders or non-state shareholders (explicitly, private firms or individuals). State shareholders have political and economic considerations, while non-state shareholders are mainly profit-driven (Allen et al, 2005; Chen, Firth, Gao, and Rui, 2006). Under different ownership structures, the controlling shareholders have different primary motives, which lead to different influences on managers. This could instigate distinctive effects of topic-specific meetings on quality of corporate governance. We find that the negative moderation effect of nomination meetings on the relationship between CEO dismissal and firm performance is significant in non-state-controlled firms, yet there is no effect in state-controlled firms. Further, the moderation effect of growth-strategy meetings on the CEO-pay-to-performance sensitivity is positive in both non-state-controlled and state-controlled firms.

Our research contributes to the corporate governance literature in the following ways. First, it is related to the literature that examines board effectiveness and influence upon firm performance. Previous studies (e.g., Adams, Hermalin, and Weisbach, 2010; Schwartz-Ziv and Weisbach, 2013) in the field of board effectiveness have only focused on board characteristics, and drawn inferences about how board characteristics could affect their activities, and ultimately impact firm value. To our best knowledge, our study is the first to conduct systematic research of whether board activities on assorted topics affect the quality of corporate governance. We show that board activities related to strategic decisions can alter the relationship between CEO interests and firm performance.

Second, our study contributes to the dynamic debate among academics and practitioners on the importance of board meetings. This study provides novel empirical evidence on how boards' task performance links with governance at the firm level. Consistent with the prediction of the board process model (e.g., Forbes and Milliken, 1999) that board task

performance can improve corporate governance, we find that meetings on growth strategies have positive effects on corporate governance, although meetings with assorted emphases have different effects. Given that previous studies (e.g., Brick and Chidambaran, 2010; Vafeas, 1999) only take annual meeting frequency into account, we argue that our proxies for board monitoring activities are more accurate.

Finally, our study provides the first large-sample evidence of board monitoring activities improving corporate governance. Previous studies (Jiang, Wan, and Zhao, 2016; Ma and Khanna, 2016; Tang, Du, and Hou, 2013), also employing data from independent director reports, focus on how independent directors improve governance via dissension reports. They investigate the effect of dissension on the stock market, and explore which factors increase the probability of dissenting votes from independent directors. However, the dissensions only account for less than 2% of all reports. Our results using all the data specify that the various monitoring activities conducted in the board room have different effects on the sensitivities of CEO dismissal/compensation to performance. This lends support to the idea that (independent) board governance can offset the power of CEOs and controlling shareholders in China.

The remainder of the paper proceeds as follows. In Section 2, we provide the institutional background and literature review. The Sections 3 and 4 describe the sample data and explain our research design. The penultimate section contains the empirical results and discussion. In the final section, we present our conclusions and discuss areas for further research.

## **2. Literature Review**

### *2.1 Institutional Background and Corporate Governance in China*

China's economic reform began with the study of the modern corporate governance systems of Western countries. In 1992, China introduced Germany's two-tier board system, consisting of the main board and a supervisory board. In most stated-owned enterprises (SOEs), the government had a significant impact on the nominations and appointments to both boards. The top management of firms worked as bureaucrats, and the supervisory boards had little motivation and ambiguous accountability when it came to monitoring managers and firm operations (Allen et al., 2005; Conyon and He, 2011).

In order to deepen the economic reforms and protect the interests of minority shareholders, the CSRC mimicked the Sarbanes-Oxley Act in adopting new corporate governance mechanisms from 2001 onwards. It issued guidelines and regulations (2001, 2002) that compelled each listed firm to have independent directors on its main board and to improve the quality of its information disclosure. The proportion of independent directors was required to be at least one-third by June 2003, while independent directors were required to publish the *Report of the Independent Director* after board meetings (CSRC, 2001). As a result, the protection of public shareholder interests and the transparency of information disclosure have improved (CSRC, 2004).

In 2005, the independent directors' system gained legal status for the first time, when it was authorized in the new Company Law of China (2005). Independent directors, as a group of corporate agents, are not affiliated with the listed firm or the controlling shareholders, and, as was set out, 'shall be especially concerned with protecting the interests of minority shareholders from being infringed' (CSRC, 2002). Furthermore, independent directors are legally liable for disclosing fraud and irregularities of listed firms through the *Report of the Independent Directors*. The report must state whether independent directors agrees with important managerial proposals discussed at the board meeting. Specifically, it is mandatory that votes on firm decisions are revealed (CSRC, 2001).



These reports provide a unique dataset from China allowing us to study corporate boards that typically function inside black boxes. Recent studies (Jiang *et al.*, 2016; Tang *et al.*, 2013) show that independent directors' dissensions in board meetings are a valid signal of the presence of effective corporate governance. Tang *et al.* (2013) find that the stock market has a negative reaction to the announcements of independent reports referring to *dissenting* votes. The probability of receiving a negative report is higher for firms with more serious agency problems. Jiang *et al.* (2016) show that independent directors who have higher human capital concerns are more likely to give negative opinions in their reports, and the directors issuing dissensions are rewarded by more directorships and lowers the likelihood of regulatory sanctions. These studies suggest that directors' dissenting votes enhance corporate governance and market transparency primarily through the responses of stakeholders to the information released about dissenting votes.

However, the dissenting reports account for merely 1.31% of all the reports in the dataset from 2005 to 2010 (Tang *et al.*, 2013), and less than 2% from 2005 to 2015 based on our sample. In fact, the low rate of dissent is not unique to China. Director dissensions are rarely observed worldwide (e.g., approximate 2% from board meeting minutes in ten Israel firms over three years) (Schwartz-Ziv and Weisbach, 2013). In addition, studies focusing on the dissenting votes ignore directors' role in corporate governance in 'normal' situations.

By fully utilizing the data from all the independent directors' reports, we extract proposal-based board monitoring activities, explicitly, topic-specific meeting frequencies. Thus, we provide systematic, large-sample empirical work, examining whether and how board monitoring based on particular topics enhances quality of corporate governance. This highlights the role of the board of directors in modifying the relationship between CEO interests and firm performance in day-to-day supervision.

## *2.2 CEO Dismissal and Compensation, Firm Performance and Boards of Directors in China*

The board is responsible for designing a compensation contract that will motivate the CEO, rewarding acceptable firm performance, and punishing (and in extreme cases, dismissing) the CEO for poor performance (Fama, 1980). Worldwide (but heavily focused on the US market), research on the subject has mostly been restricted to investigating how board composition and features influence the relationships between CEO rewards and firm performance. These characteristics include independent director composition (Dah, Frye, and Hurst, 2014), board size (Coles, Daniel, and Naveen, 2008), CEO-chairman duality (Ryan and Wiggins, 2004), board gender or ethnic diversity (Adams and Ferreira, 2009; Carter, 2010), directors' reputation (e.g., Shivdasani, 1993), and the working backgrounds of board members (e.g., Francis, Hasan, and Wu, 2015).

The limited empirical literature based on the Chinese market shows mixed results on drivers of CEO dismissal and compensation. The statistical significance and magnitude of the coefficients linking CEO dismissal/compensation to performance vary, depending on performance measures and sample periods (e.g., Bai and Xu, 2005; Conyon and He, 2011, 2014; Firth, Fung, and Rui, 2006; Kato and Long, 2006b). For instance, CEO turnover is more likely to be associated with accounting performance, and less with market-based performance (Conyon and He, 2014). Firth, Fung, and Rui (2007), using data from 1998 to 2000, find that CEO compensation in China is more likely to be connected to firm accounting performance (i.e. return on assets, ROA) than market performance.

Research using data on China's listed firms documents mixed results on the influence of independent directors on top executive turnover/compensation. Kato and Long (2006) find that the presence of independent directors enhances the turnover-performance relation from

1999 to 2002. Conyon and He (2011) argue that non-state (privately) controlled firms, and firms with more independent directors on the board, are more likely to replace their CEO due to poor performance, based on data from 2001 to 2005. In contrast, Firth, Fung, and Rui (2006) show that the turnover-performance sensitivity is lower if more independent directors are on the board. Firth, Fung, and Rui (2007) show firms with more non-executive directors are more likely to use performance-based pay, and firms that have a joint CEO/chairman position are less likely to use performance-based pay. Conyon and He (2011) find that firms with more independent directors on the board have a higher pay-for-performance link, for data from 2001 to 2005.

The Chinese corporate governance framework has several features that may not exist in Western economies. Due to historical reasons, many firms are still controlled or influenced by the state. Profitability is not the only goal of the state owners. Directors in state-controlled firms are representatives of the state, or state agents, and they may be more concerned about their political careers than the professional managerial market (Wang, 2015). Thus, non-profit goals are often what state-controlled shareholders pursue, but this is against minority shareholders' interests (Allen *et al.*, 2005). As a result, independent directors do not dismiss CEOs of poorly performing firms (Firth, Fung, and Rui, 2006). In non-state-controlled firms, managers are often the controlling shareholders themselves or strongly aligned with the controlling shareholders. It is more challenging for such boards to discipline the entrenched managers. The effectiveness of board monitoring is likely to differ between state-controlled and non-state-controlled firms.

### *2.3 Topic-Specific Board Meetings and Corporate Governance in China*

Directors (especially independent directors) are not full-time employees of the companies they serve. Board meetings offer directors more time to carry out their monitoring functions. Interactions and communications during meetings provide directors with more information about the firm (Lipton and Lorsch, 1992). The meeting time also has the salutary effect of strengthening the cohesive bonds among directors (Forbes and Milliken, 1999). From this point of view, the more frequent the meetings, the better are the monitoring and control, resulting in better corporate governance outcomes. However, Jensen (1993) points out that too many inefficient and routine meetings are held primarily to satisfy the requirements of firm hierarchy and regulation, which is the main critique of the meaningfulness of board activities.

Previous studies on board meetings most often portray them (Adams, 2005; Brick and Chidambaran, 2010; Vafeas, 1999) as rather homogeneous and monolithic. Vafeas (1999) finds that poor performance increases the frequency of board meetings, while the number of board meetings has no effect on CEO turnover/performance sensitivity in the US market. However, more board meetings and higher meeting attendances do not effectively prevent the management from engaging in opportunistic behaviours (e.g., Lo, Wong, and Firth, 2010).

Topic-specific meetings provide directors with corporate information on various dimensions, which are fundamental to board decisions. Meeting frequencies on assorted important topics are also effective measures of how directors fulfil their monitoring obligations, because boards of directors put most of their effort into monitoring sundry management decisions (Schwartz-Ziv and Weisbach, 2013; Stiles, 2001). For example, board meetings on accounting practice and reporting requirements can directly reveal managerial malfeasance (e.g., Lipton and Lorsch, 1992). Meetings on hiring, firing and assessment of top management and directors disclose the bargaining that goes on between CEOs and boards of directors (e.g., Adams et al., 2010). Furthermore, meetings on the selection of projects and

strategy provide boards with insights into CEO types (good or bad) based on the NPVs of the CEO's projects (Dominguez-Martinez, Swank, and Visser, 2008).

We hypothesize that, if the board of directors works effectively in China, the meeting frequency on certain topics could enhance the relationship between CEO turnover (or compensation) and firm performance. In contrast, if the sensitivities between CEO interests and firm performance are not altered by the number of meetings on any topics, it may suggest that board monitoring at such meetings is not effective. Our study provides evidence on how topic-specific board meetings directly affect the quality of corporate governance in China.

### **3. Data and Summary Statistics**

We perform our analysis on a sample of firms listed on the Main Boards of the Shanghai and Shenzhen Stock Exchanges over the period of 2005-2015. Financial and corporate governance information is obtained from the China Stock Market and Accounting Research (CSMAR) database. A number of screening procedures are applied to our original sample. First, we exclude financial firms because of their special regulations and accounting standards. Second, we only retain those firms with at least three consecutive fiscal years of capital market and financial statement data. Third, to alleviate the influence of extreme values, all firm-level financial data are winsorized at the top and bottom 1%. We end up with 14,359 firm-year observations after applying this selection process.

The public release of the *Report of the Independent Director*, from which our measures of topic-specific meetings are collected, began in 2001 and became 'compulsory' in 2003. During 2003-2005, reports were only issued by listed firms on a 'voluntary' basis, as the CSRC requirements for issuing such reports were unclear. The Information Disclosure Standards (CSRC, 2005) further clarified the disclosure requirements. After 2005, the

number of independent directors' reports increased sharply. For each report, the CSMAR records the firm's stock code, the issuing date, the topics discussed, the independent directors' opinions, and the entire contents of the report (see Appendix A for an example of an independent directors' report). Reports contain various combinations of topics, in accordance with the topic[s] discussed at the board meeting in question. We use the frequency with which a topic is discussed at board meetings over a year as a proxy for board monitoring activity on the particular topic.

Column 1 of Table 1 reports mandatory disclosure subjects in the independent directors' reports recorded in the *CSMAR* database. Based on the content and roles of these topics in corporate governance, we group them into six major topics, as in Column 2 of Table 1, namely Nomination (A), Compensation (B), Financial reports and audit (C), Corporate control transactions (D), Change of equity structure (E) and Growth strategies (F). Tang et al. (2013) use a similar categorization of topics.<sup>2</sup>

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Insert Table 1 about here

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### *3.1 Types of Board Meetings*

***Nomination.*** A role typically associated with the board of directors is control of the process by which top executives are hired, promoted, assessed and, if necessary, dismissed. Nomination decisions of board members and top management may also reflect the power

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<sup>2</sup> We also used eleven topics in robustness tests. Our main results were unchanged and are available upon request.

dynamics between the CEO and board. If the board is weak, the CEO turnover and salary might not be significantly related to firm performance (Boyd, 1994; Weisbach, 1988). Shivdasani and Yermack (1999) suggest that board monitoring is reduced if the selection of directors is not independent from the CEO.

***Compensation.*** The board is also responsible for keeping the levels of remuneration sufficient to attract, retain and motivate directors. Empirical studies in China often state a weak association between CEO compensation and firm performance (e.g., Firth et al., 2006a). Although boards of directors are supposed to monitor the excess compensation of executives, they hardly ever confront management except when it comes to firing them. Brick, Palmon, and Wald (2006) find that director pay is positively related to CEO pay. They also find evidence that excess compensation (for both directors and CEO) is associated with firm underperformance, indicating mutual back scratching or cronyism among the CEO and directors.

***Financial report and audit, and corporate control transactions.*** Boards of directors are also responsible for overseeing internal control, approval of financial statements, and reporting to the shareholders. The “*financial reports and audit*” meetings include meetings on issuing/amending annual reports, auditors’ reports and auditor changes. “*Corporate control transactions*” involve related-party transactions, loan guarantees and the disposal of assets. These transactions may be associated with a manager’s or a controlling shareholder’s “tunnelling or propping” behaviour, which can harm shareholders’ interests (e.g., Peng, Wei, and Yang, 2011). Board meetings on these topics assist the board with fulfilling their disciplinary role, which reduces the probability of financial fraud and managers’ tunnelling behaviour.

***Growth strategies.*** Setting the strategic direction of the company is another role the board serves (Demb and Neubauer, 1992). Meetings on growth strategies enable boards of directors

to re-evaluate CEO capability and firm fundamentals. The board makes decisions on issues that are critical and strategic, such as acquiring a new firm, divesting a division or negotiating a takeover bid (Baysinger and Bulter, 1985; Zahra and Pearce, 1989; Minichilli et al., 2009). Meetings on growth strategies include the use of IPO proceeds, investments and acquisitions, and financing.

***Change of equity structure.*** Our sample period coincides with the split share structure reform in China. Prior to 2005, listed firms in China were characterized by a split share structure, in which two-thirds of the state-owned shares were not tradable. These non-tradable shares were largely blamed for some serious corporate governance issues and a lack of incentives for managers under the state-ownership structure. In April 2005, the CSRC initiated a split share structure reform, which enabled state shareholders of listed firms to trade their restricted shares. Board meeting decisions related to a split share structure reform influence a firm's ownership structure could eventually cause a change in the firm's internal corporate governance mechanisms (e.g., Cao, Pan, and Tian, 2011).

Table 2 presents the sample distribution and descriptive statistics for six types of meetings, across industries. Generally, the meeting frequencies of the six topics are steady across industries. Accommodation and Catering (H) and Culture and Sports and Entertainment (M) tend to have slight more meetings than other industries, but account for just 1.9% of the sample.

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Insert Table 2 about here  
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### 3.2 Key Variables

**CEO dismissal.** The top executive in a Chinese listed firm is often the chairman (or general manager) of the board. She/he is the legal representative of the firm, works full time, and is involved in the firm's daily decision making (e.g., Conyon and He, 2011; Kato and Long, 2006a). Consistent with previous studies, we adopt the title of CEO for the top executive, to avoid confusion. CEO dismissal is coded as a dichotomous variable, which equals one if a CEO is forcefully dismissed, and zero otherwise. In line with previous studies (e.g., Chang and Wong, 2009; You and Du, 2012), we exclude voluntary turnover because of health issues or retirement, based on public information (recorded in the CSMAR dataset), retaining only the forced dismissals.

Panel A of Table 3 exhibits the yearly distribution for *CEO dismissal*. During our sample period, we identify 2,556 forced CEO dismissals among the 14,359 firm-year observations. If a firm has two or more dismissals in one fiscal year, we merely count the last one. The likelihood of forced CEO turnover is approximately 18%, implying an average CEO tenure of less than five years, which is consistent with the findings of Conyon and He (2014) and similar to the turnover rate in the US (Kaplan and Minton, 2012).

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Insert Table 3 about here  
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**Compensation.** Executive compensation schemes in China typically embrace three components: cash salaries, bonuses, and stipends. Although the CSRC has permitted stock option trading since 2005, their adoption in equity compensation is rare: only 1.5% of CEOs received equity grants in 2005, a figure that climbed to 3.5% in 2010 (Conyon and He, 2012).

Empirical studies estimate that Chinese executives may receive ‘perks’ from their companies, accounting for approximately 15-32% of total compensation, but they are rarely disclosed in financial reports and difficult to assess using public data. Hence, *compensation* in this study is the reported sum of cash salaries, bonuses, and stipends. *Compensation* is measured as the average compensation of the three highest-paid management executives and directors in a firm, consistent with prior research (e.g., Conyon and He, 2012).

Panel A of Table 3 illustrates that executive compensation has risen rapidly. The amount paid in 2015, about 802,000 RMB (116,500 USD), was triple that in 2005 (230,000 RMB / 33,400 USD). Although executive compensation is not as high as that in the US, it is ten times the average wage of employees in the same industry, according to data from the National Bureau of Statistics of China. The logarithm of executive compensation is included in our regressions. Chinese listed firms probably set up their compensation contracts using industry benchmarks (Jiang, Liao, Lin, and Liu, 2018). In our regressions, we use *Industry-adjusted compensation* as a proxy for excess compensation, which is defined as the firm’s *compensation* minus the average compensation in the same industry, based on the CSRC industry code, in the given fiscal year. The untabulated results obtained by using raw compensation are similar.

**Topic-specific meetings.** Panel B of Table 3 details the descriptive statistics and annual meeting frequencies for each specific topic. Although the annual number of meetings does not change much (about eight or ten meetings per year, see last row of Panel A-Table 3), the topics discussed at the meetings show significant variation. Since 2005, proposals of firm control transactions (e.g., related-party transactions) have been the most frequently discussed topic, at 1.74 times per firm-year. The nomination of directors and executives is the second most frequent, occurring about once per firm-year. The number of meetings about

compensation changes increases from 96 in 2005 to 915 in 2015, which is in line with the rapid increase in executive compensation over that period. The average meeting frequencies for the topics of financial reports and audit and growth strategies are 0.42 and 0.35, respectively. The frequency of meetings on changes in equity structure is likely influenced by government policy. In 2005, the CSRC instigated the split share structure reform, setting a deadline for the end of 2006. As most of the equity structure changes were related to non-tradable shares, mostly owned by SOEs or government agencies, being transformed into tradable shares, the frequency of meetings on equity structure changes peaked at 1,055 in the year 2006.

Panel C of Table 3 shows how meeting frequencies vary with firm size. Board characteristics and monitoring activities may differ based on organizational complexity; one such characteristic is firm size (Eisenberg, Sundgren, and Wells, 1998; Vafeas, 1999). Thus, we divide firm-year observations into three groups based on corporate book value: small firms (the lower third of the distribution), median firms (the median third) and large firms (the higher third). Among the six topics of meetings, frequencies for four topics increase with firm size: nomination, compensation, corporate control transactions, and growth strategies. Particularly, the number of meetings about corporate control transitions in large firms is double that in small firms ( $t$ -statistic for the average meeting frequency for corporate control transactions in small firms minus that in large firms is significant at the 1% level). Meetings about changes in equity structure are most frequent in small firms, meetings to discuss financial reports and audits do not alter with firm size.

Panel D of Table 3 presents the descriptive statistics and annual meeting frequencies for all eleven topics, based on the CSMAR database. Meetings of related-party transactions (M4) and loan guarantees (M5) comprise most of the meetings discussing corporate control

transactions. Audit changes (M7), ownership changes (M8) and disposal of assets (M10) are not discussed frequently in board meetings in China.

**Firm performance measures.** Our primary measure of firm performance is ROA. Table 4 shows that the average ROA is about 3.9%, which is consistent with prior research (Conyon and He, 2011, 2012; Kato and Long, 2006a). We also use two other accounting performance measures, return on equity (ROE) and profit margin (sales profit / sales income), in robustness tests. Although market-based performance measures (i.e., stock returns and Tobin's Q) are widely used in developed markets, they are not considered an appropriate performance measure for Chinese listed firms. Most Chinese listed firms are SOEs, the majority of whose shares are not tradable in the secondary market. The holders of non-tradable shares, mainly governments or state-owned legal persons, typically acquire their shares at prices significantly lower than the initial public offering prices. Since there are big pricing gaps between tradable and non-tradable shares, Tobin's Q would not correctly reflect firms' financial performance or value. In addition, the Chinese stock markets are highly speculative, and share prices bear little relationship to their fundamental values (e.g., Bai, Liu, Lu, Song, and Zhang, 2004). In our regression, we use the *industry-adjusted return on assets* that is the firm's ROA minus the average ROA in the same industry, following the literature (Brick and Chidambaran, 2010; Vafeas, 1999). We also employ firms' raw ROA in the regressions, and the results are unaltered and available upon request.

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Insert Table 4 about here  
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**Control variables.** Following the recent corporate board literature (Conyon and He, 2011; You and Du, 2012), we group the vector of control variables into three categories: board features, ownership variables, and firm characteristics. Table 4 presents the descriptive statistics for these variables. The category of board feature variables contains the percentage of independent directors on a board (*Independent directors %*), the natural log of the number of board directors (*Board size*), and a dummy variable for whether the CEO also chairs the board (*Duality*). The group of ownership structure variables includes shares held by the largest shareholders (*Largest shareholding*), the *Herfindahl* index, which is the sum of squares of the shareholding percentages of the top five shareholders (*Ownership concentration*), and an indicator variable taking a value of 1 if the firm is controlled by a parent SOE or government agent (*State-owned enterprises*). To control for firm characteristics, we include the natural log of a firm's total assets (*Log(firm size)*), the logarithm of the number of employees (*Log(employees)*), and the book value of debt divided by total assets (*Leverage*). We also control for CEO age (*Age*) and gender (*Female*) in the estimations of CEO dismissal. A set of year dummies are included to control for macro-economic shocks, while industry dummies account for industry-specific factors.<sup>3</sup>

About 66% of the listed companies in our sample are SOEs. The average number of board members is 9.19 and independent directors make up 37% of them (the legal requirement has been one third since 2003). About 14% of firms have a CEO with dual leadership roles. The pairwise correlations between the variables are provided in Appendix B. There are only modest correlations among the independent variables. The values of the variance inflation

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<sup>3</sup> Industry dummies are included because listed firms may change main business sectors during the sample period. The untabulated coefficients of the industry dummies prove the existence of within-group variance for most industries.

factors (VIFs) range from 1.02 to 1.86, and all the values are strictly less than 3, indicating that the regression analysis is not likely to have multicollinearity problems. The distributions of the other variables are largely consistent with those reported in prior studies.

#### 4. Research Methodology

To examine the impact of topic-specific meetings on the sensitivity of CEO dismissal to firm performance, we estimate six series of panel data logistic regressions with fixed effects, for firm  $i$  in year  $t$ :

$$\begin{aligned} \text{Probability (Dismissal}_{it}) = f(\text{Performance}_{it-1}, \text{Topic focused meeting frequency}_{it-1}, \\ \text{Performance}_{it-1} \times \text{Topic focused meeting frequency}_{it-1}, \text{Control variables}_{it-1}) \end{aligned} \quad (1)$$

To test the effect of topic-specific meetings on the correlation between compensation and performance, we estimate six series of linear regression models using fixed effects:

$$\begin{aligned} \text{Compensation}_{it} = f(\text{Performance}_{it-1}, \text{Topic focused meeting frequency}_{it-1}, \\ \text{Performance}_{it-1} \times \text{Topic focused meeting frequency}_{it-1}, \text{Control variables}_{it-1}) \end{aligned} \quad (2)$$

A fixed effects estimator can help to control the heteroscedasticity caused by unobserved firm-specific influences or measuring errors in regressions. In order to examine whether the holding of topic-specific meetings has an impact on performance-related CEO dismissal and compensation, we include interaction effects of the frequencies of meetings on the six major topics, individually. In other words, for each type of meeting, we include *topic focused meeting frequency* <sub>$it-1$</sub>  and the interaction term *Performance* <sub>$it-1$</sub>   $\times$  *topic focused meeting frequency* <sub>$it-1$</sub>  in the regression models. The use of interaction terms is common in economics and finance research (e.g., Firth et al., 2006; Kato and Long, 2006b; Weisbach, 1988; You and Du, 2012). A positive value for the effect of the interaction term in the compensation models would imply that, the higher was the frequency with which

topics were discussed at board meetings, the greater would be the sensitivity of CEO compensation to performance. In the CEO dismissal models, a negative value for the effect of the interaction would indicate that, the more a certain topic was discussed at board meetings, the greater would be the CEO dismissal-to-performance sensitivity. To provide robust evidence, we alternatively measure meeting frequency using an indicator for each topic, *topic-specific meeting dummy*, which equals one if the meeting frequency is above the median of the distribution within the same year, and zero otherwise.

We can also partly mitigate the endogeneity issue by using lagged values of all independent variables to facilitate causality. Further consideration of endogeneity issues is provided in robustness checks where we implement dynamic GMM regressions.

## **5. Do Topic-Specific Board Meetings Affect Quality of Corporate Governance?**

### *5.1 CEO Dismissal, Firm Performance, and Topic-Specific Board Meetings*

In this section, we examine whether the frequencies of topic-specific board meetings affect the CEO turnover-performance sensitivity. The dependent variable is set to one if the CEO has been dismissed and zero otherwise. Table 5 presents the results of the logistic regressions with fixed effects based on equation (1), with firm performance measured using industry-adjusted ROA.<sup>4</sup> The topic-specific meeting variables for each of the six topics are defined as (1) the annual meeting frequency and (2) a *topic-specific meeting dummy*,

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<sup>4</sup> We also estimate equation (1) using random effects and the main results are consistent with those obtained using fixed effects. The results of a Hausman test indicate that the firm-fixed-effects models in our study are more suitable.

indicating whether the annual meeting frequency is above the median for the distribution within the same year. Columns (A) to (F) show the estimation results for each board meeting topic. For instance, Column (A)–(1) presents the regression results obtained using the number of nomination-related meetings, while Column (A)–(2) presents those obtained using the *topic-specific meeting dummy* for nomination-related meetings.

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Insert Table 5 about here

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Table 5 shows that CEO dismissal and firm performance are negatively associated after controlling for firm-level governance and characteristics.<sup>5</sup> This indicates that the CEO would be dismissed by the board if the firm performance was poor, consistent with previous studies (e.g., Chen, Firth, and Xu, 2009; Conyon and He, 2012; Kato and Long, 2006b).

To test and evaluate the effects of topic-specific meetings on turnover-performance sensitivity, we introduce two variables, namely *topic focused meeting frequency*<sub>*it*-1</sub> and an interaction term,  $Performance_{it-1} \times topic\ focused\ meeting\ frequency_{it-1}$ . The coefficients on meeting frequency for Nomination (A), Compensation (B), and Growth strategies (F) are negative and statistically significant, which indicates that firms with more meetings related to nominations, compensation, or growth strategies have lower likelihoods of dismissing their CEOs. In contrast, the coefficients of (C) Financial reports and audit are positively significant, which implies that firms with more meetings discussing financial reports, auditor switches and changes of audit opinion are more likely to fire their CEOs. The

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<sup>5</sup> We use stock returns and Tobin's Q as performance measures, and find that market performance plays a limited role in explaining the probability of CEO dismissal or the size of compensation, which is consistent with the finding of Conyon and He (2014).



amendment of financial reports and changes of auditor opinion are probably related to poor firm performance and corporate governance problems. Meetings on these topics will help directors to identify weaknesses in firm performance (Lipton and Lorsch, 1992), which could put more pressure on a firm to fire its CEO.

For nomination meetings (A), where boards discuss personnel changes involving directors, the CEO, and top management, the coefficient of the interaction term is significantly positive. This result suggests that the existence of board nomination meetings reduces the sensitivity of forced CEO dismissal to firm performance. Other board meeting topics are unlikely to affect the dismissal-performance relationship. The coefficients of the interaction terms have different signs and vary greatly in magnitude, indicating that the influences of different types of meetings on CEO-performance sensitivities are different, although most of them are not significant. Out of all six major types of meeting topics, we find no monitoring activities that increased the negative relationship between CEO dismissal and firm performance, suggesting that boards of directors in China are not effective at dismissing poorly performing CEOs through their monitoring of corporate decisions. Our findings reflect the difficulties boards of directors have dismissing their CEOs in China (Allen et al., 2005; Firth, Fung, and Rui, 2006b). Furthermore, we explore whether the effects of nomination meeting on CEO dismissal-performance sensitivity differs under different ownership structures, in Section 5.3.

CEO/chairman duality has negative effects on the probability of CEO dismissal, consistent with the findings of Goyal and Park (2002). Firms of a larger size have a lower probability of forcibly dismissing their CEO. The coefficients of the percentage of independent directors are not significant, which is consistent with the findings of Kato and Long (2006a).

CEO dismissal may not happen suddenly, but could instead rely on unsatisfactory long-term performance. Thus, we also explore whether these board meetings (accumulated board meetings) have an effect on the sensitivity of CEO dismissal to long-term performance. We

estimate a logit model with firm fixed effects of CEO dismissal and long-term performance. The latter is defined as the accumulated industry-adjusted ROA from year  $t-3$  to  $t-1$ , which is then interacted with board meetings in year  $t-1$  for each topic (or with accumulated board meetings from year  $t-3$  to  $t-1$ ) following Kim (1996). The hypothesis examined is that the probability of CEO dismissal is significantly more sensitive to long-term performance when there are more board meetings. The results (not tabulated) do not support this assertion. The evidence suggests that, although CEO dismissal is negatively related to long-term performance, (accumulated) board activities do not influence the relation between CEO dismissal and long-term performance.

Overall, our results imply that different types of board meetings may affect the CEO turnover-performance sensitivity differently. Interestingly, the existence of board nomination meetings lessens the sensitivity of CEO dismissals to performance.

## 5.2 Compensation, Firm Performance, and Topic-specific Board Meetings

Table 6A reports panel data estimates from equation (2) with fixed effects in which we examine the effects of topic-specific boarding meetings on the relationship between executive compensation and firm performance in China. Columns (A) to (F) represent the estimation results for each board meeting topic.

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 Insert Table 6A about here  
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Table 6A illustrates that there is a positive relationship between executive compensation and firm performance, suggesting that a CEO's pay is generally higher in firms with good

performance. Our results coincide with prior research (Conyon and He, 2012; Firth et al., 2006). The implication is that firm profitability is an important component of CEOs' compensation contracting in the Chinese market.

Executive compensation is positively related to meeting frequencies on the topics of Nomination (A) and Compensation (B). This implies these meetings are likely to be used by CEOs to increase their compensation level, while the boards of directors do not seem able to challenge their CEOs' demands for high payments at meetings. As for the interaction terms, the coefficient of ROA interacted with the frequency of meetings on growth strategy is positive and significant. This means the CEO pay-performance sensitivity is higher when a firm has more meetings on growth strategies, which is consistent with our conjectures about the role of growth-strategy meetings. Meetings on growth strategies enable boards of directors to re-evaluate CEO capability and firm fundamentals deeply, and reward CEO efforts towards enhancing firm performance (Dominguez-Martinez, Swank, and Visser, 2008). Moreover, the coefficient of the interaction term between nomination meeting frequency and ROA is significantly negative, which suggests that the link between executive compensation and a firm's performance is likely to be weakened by such meetings. Lastly, none of the interactions between other meeting topics and firm performance is statistically significant.

Board size tends to have a positive effect on CEO compensation, as do the existence of a major shareholder and firm size, which is consistent with Cao et al. (2011). The firms with state-controlled shareholders and higher levels of debt have lower levels of CEO compensation.

In the executive pay-setting process, companies probably employ several key firm characteristics to select benchmarks for peer-group comparisons in the US market (Bizjak, Lemmon, and Nguyen, 2011; Coles, Wang, and Li, 2018). Thus, we further construct another

proxy for excess compensation, *Excess Compensation*, which is obtained using the residual from the regression of CEO compensation on other firm characteristics (size, performance, board size, board independence and ownership concentration) within the same industry and year.<sup>6</sup> Table 6B displays the results of the regression of *Excess Compensation* on board meetings and meeting-performance interactions. The main results are consistent with others using industry-adjusted compensation.

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Insert Table 6B about here

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Overall, the results signify that more meetings discussing firms' mergers and acquisitions and the use of IPO proceeds would improve the relationship between compensation and firm performance. In contrast, board nomination meetings weaken this relationship.

### 5.3 The Impact of Topic-Specific Board Meetings and Corporate Ownership in China

Chinese listed firms often have controlling shareholders who can nominate/appoint their preferred agents to the boards and use their power to benefit themselves, sometimes at the expense of the minority shareholders. The real control power of the firm often lies with either the state or non-state controlling shareholders, who often have different goals from other

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<sup>6</sup> To obtain Excess Compensation, we estimate the following cross-sectional regressions for each industry classification within the fiscal year from 2005 to 2015:  $Compensation_{jt} = Log(firm\ size)_{jt} + ROA_{jt} + Board\ size_{jt} + Independent\ director\ \%_{jt} + Ownership\ Concentration_{jt} + \varepsilon_{jt}$ . The firm-specific annual excess compensation for firm  $j$  (in a given industry) in year  $t$ ,  $\varepsilon_{jt}$ , is the residual of the regression of the above equation for that particular industry.

shareholders that may have a huge impact on management motivations and actions. State owners such as SOEs or government agents have political, social, and economic goals (Allen et al., 2005). Non-state controlling owners have strong incentives to maximize firm value for their own interests, but they may also expropriate the income and assets of the listed firm away from the minority shareholders (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). This differs from governance mechanisms in the US. We focus our examinations of nomination and growth-strategy meetings on two subsamples: the state-controlled and non-state-controlled firms respectively.

The state-controlled firm subsample contains firms with state controlling shareholders, while the non-state-controlled firm subsample consists of firms with non-state controlling shareholders. Panel A of Table 7 presents estimation results for the effects of nomination meetings in the state-controlled and non-state-controlled firms respectively. For the CEO dismissal estimations, the interaction term  $ROA_{t-1} \times \text{Nomination meeting frequency}_{t-1}$  is only significant in the non-state-controlled firm subsample. The sign of the interaction term in this subsample is positive (Column (1)-B), which contradicts the negative sign of the ROA effect on CEO dismissal. Thus, board meetings on nominations deteriorate the sensitivity of CEO dismissal to performance in non-state-controlled firms.

For the CEO compensation estimation, the sign of the interaction term in the subsample of non-state-controlled firms is negative (Column (2)-B in Table 7 Panel A). This implies that nomination-related board meetings also deteriorate the relationship between CEO compensation and performance in non-state-controlled firms. In contrast, the coefficients of the interaction terms in the subsample of state-controlled firms are not significant (Column (2)-A in Table 7 Panel A). Therefore, we find that nomination-related meetings lessen the quality of corporate governance in non-state-controlled firms, rather than in state-controlled firms. These findings suggest that, in privately controlled corporations, CEOs may have more

power and may tend to appoint people who will conflict with them less, whereas CEOs in state-controlled firms may be less likely to manipulate personnel selection so as to entrench themselves through board meetings.

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 Insert Table 7 about here  
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Panel B of Table 7 shows estimation results for the effects of growth-strategy meetings in the state-controlled firms and non-state-controlled firms respectively. In both subsamples, the interaction terms  $ROA \times Growth\ strategies\ meetings$  are significantly and positively related to CEO compensation, and these signs are the same as those for firm performance (Column (2)-A and Column (2)-B in in Table 7 Panel B). This suggests that growth-strategy meetings enhance the sensitivity of CEO compensation to performance, regardless of ownership structure. Overall, we find that a higher frequency of meetings on growth strategies enhances quality of corporate governance in terms of improving the CEO compensation-performance sensitivity.

#### 5.4 Endogeneity Problem and Persistence

We use the GMM method to reduce endogeneity concerns regarding board meetings, CEO dismissal/compensation and performance. These endogeneity concerns include unobserved heterogeneity, simultaneity, and dynamic relation between board meetings and past firm performance concerns. Our endogenous variables are topic-specific board meetings, firm performance and their interaction terms.

However, topic-specific meetings should be treated as endogenous in the compensation model, based on the results of the ‘difference-in-Sargan-statistic’ test. Following recent works (Conyon and He, 2012; Wintoki et al., 2012), we use the dynamic GMM method to estimate the compensation-performance model. Topic-specific meetings, performance and their interactions and all of the control variables except for the year dummies are assumed to be potentially endogenous. One year lagged compensation is included in the main regression. In GMM estimation, variable dated  $\leq t-2$  can be used as instruments for endogenous variables (Arellano and Bond, 1991). We used up to five years of lagged dependent and endogenous variables as instruments. Heteroskedasticity is controlled by robust standard errors. The results are reported in Appendix C. To ensure that the dynamic GMM method is correctly specified, we examine the exogeneity of the instrumental variables and the autocorrelation conditions of the transient errors. As reported in Table 8, the Hansen over-identification test fails to reject the null that our instruments are uncorrelated with the error terms, that is, unrelated to compensation. In addition, the residuals are significantly correlated in the first differences (AR(1)), but are uncorrelated in the second differences (AR(2)), suggesting that the assumptions of the dynamic GMM model hold. Thus, our instruments are valid for reducing the simultaneous causality concerns.

Appendix C demonstrates that Compensation is significantly related to ROA. The interaction term between nomination meetings and ROA (Column (1) of Table 8) is still negatively significant, while the interaction term between growth-strategy meetings and ROA is positive (Column (6) of Table 8). The GMM estimates are similar to our earlier findings.

## 5.5 Additional Checks

*5.5.1 Alternative measures of CEO dismissal and compensation.* Our *CEO dismissal* measure is based on available public information (on forced or unforced dismissals). However, using public information to classify CEO dismissals may be problematic. Following previous research (e.g., Kaplan and Minton, 2012; Kato and Long, 2006b), we employ a binary variable that equals one for any type of CEO personnel change, regardless of

the reason for the dismissal. We re-estimate the logit equation (1) using this new definition of CEO dismissal as the dependent variable. Our results are qualitatively similar to those obtained using forced CEO dismissal.

We also use the individual-level CEO payment data available from the year 2005 as a robustness check. Approximately 40% of CEOs did not receive any compensation from the listed firms during the period in question. These CEOs are likely to have received their salaries from the parent company, or to have held a large proportion of shares. The sample includes 3,454 listed-firm-year observations over the period of 2005-2010. The untabulated results based on the individual data are similar to those based on aggregate compensation. The coefficient on the interaction term (nomination meeting frequency  $\times$  ROA) is significantly negative, which suggests that the link between executive compensation and a firm's accounting performance is likely to be weakened by such meetings. Unreported results for ROE and the profit margin are similar to those for ROA.

Furthermore, considering the influence of the compensation paid to peers in the same industry, we use relative aggregate executive compensation as the payment measure. We calculate the relative aggregate executive compensation by subtracting the industrial median of the average compensation of the three highest executives in firms within the same industry and year. Our results are similar when we perform this robustness check.

*5.5.2 Eleven meeting topics recorded in the CSMAR database.* In order to test whether our results are affected by our grouping of meeting topics, we re-estimate equations (1) and (2) using meeting frequencies for eleven topics recorded in the CSMAR database (see Column 2 of Table 1). Except for meetings on nominations, the interactions are found not to be significant for CEO dismissal and performance sensitivity. Regarding the CEO compensation sensitivity to firm performance, the interactions between meetings on mergers and



acquisitions (6) and on the use of IPO proceeds (9) and firm performance are positively significant, while the other interactions are not significant. Meetings on mergers and acquisitions (6) and the use of IPO proceeds (9) were combined into meetings on growth strategies in the main analysis. Therefore, the unreported results for the eleven meeting topics are consistent with our main analysis based on the six major topics.

*5.5.3 China-specific control variables.* As our study is based on Chinese listed firms, we further add more control variables so as to consider the special institutional and economic environment in China. Stemming from the introduction of the US board system to China in the year 2001, the supervisory board of directors still exists there. Thus, we add the size of the supervisory board to control for the potential effect of monitoring from supervisors. Regarding the regional imbalances in economic growth, we add the Chinese government transparency index (or regional dummies) accordingly. Our key results remain unaltered after we consider characteristics of the Chinese market.

## **6. Discussion and Conclusions**

The purpose of this paper is to provide a better understanding of how board activity affects board effectiveness in linking CEO compensation/dismissal to firm performance. In our empirical examination, to measure board activity, we move beyond the mere frequency of board meetings and target their agendas. We exploit a unique dataset on board meeting agendas of Chinese listed firms over the period 2005-2015, and show that there are six major meeting topics, namely management and directors' nominations, their compensation, management routines, firm control transactions, changes in equity structure, and growth strategies.

To provide evidence of board effectiveness in China, we examine the influences of topic-specific meetings on the relationship between CEO-dismissal and performance, and on that between CEO-compensation and performance. The rationale behind this is that discussing certain topics could enhance the informativeness of the board, thus helping directors to assess and monitor CEOs, and thereby strengthen these relationships (in other words, improve internal corporate governance).

Our results reveal that CEO dismissal is significantly negatively, and compensation positively, correlated to all of the accounting-based performance measures. Hence, a firm's profitability is the main criterion used to evaluate the CEO's performance in China. We also find that the frequencies of meetings on major topics are diverse, as are the roles of such meetings in monitoring the top management. In particular, the sensitivity of CEO compensation to performance is stronger when there are more board meetings on growth strategies, such as mergers and acquisitions and applying IPO proceeds. When directors discuss firm growth strategies, they could obtain comprehensive information about firm performance, CEO capability, and future strategies. Our results suggest the soft information captured in board meetings is likely to influence directors' evaluations of the CEO's capability, leading them to change the CEO's compensation scheme accordingly, so as to motivate the CEO and other managers. Meanwhile, most of the major topics of board meetings are not likely to affect the sensitivity between CEO turnover and performance. In fact, meetings on nominations could even reduce both turnover-performance and pay-performance sensitivity.

In China, the majority of listed firms have dominant state shareholders or non-state shareholders. These two types of shareholders have distinct goals, which may influence managerial incentives, and selection and activities of board members. Using subsample analyses, we find that board meetings on growth strategies could enhance CEO

compensation-performance sensitivity in both types of firms. However, meetings on nominations reduce both turnover-performance and pay-performance sensitivity in firms controlled by dominant non-state shareholders.

The findings of our study suggest there are differences in the effects of assorted meeting topics on the CEO pay/dismissal-to-performance sensitivities, and highlight the need for more tailored approaches to board requirements. In the countries that carry out good ‘corporate governance guidance’ policies, regulators’ agendas stay concentrated on board composition and structure, and the total number of annual meetings, as the means to allow boards to best perform their duties. A sound board structure following such guidance alone, however, does not ‘make great boards great’ (Sonnenfeld, 2002). To a certain degree, our study reflects the complexities involved in the board decision-making process. Thus, it calls for a reconsideration of the current one-size-fits-all approach taken by the regulators. Particularly in China, the regulators should consider introducing regulations to prevent potentially self-interested behaviour from the CEO and non-state controlling shareholders, in terms of making nominations and personnel changes to the directors and top management.

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**TABLE 1** Specific topics of board meetings in Chinese public firms

CSMAR code (According to CSRC requirements)	Major topics	Notes
Personnel – 1	Nomination (A)	Director and officer selection, appointment, and turnover
Compensation - 2	Compensation (B)	Emolument of directors and executives
Financial report and pay out policies - 3	Financial reports and audit (C)	Approval of financial reports, profit distribution, amendments and supplements of reports, etc.; switches of auditors, audit opinion; accounting treatment and information disclosure
Audit - 7		
Related-party transactions - 4	Corporate control transactions (D)	Loan guarantees are promises by the listed firm (the guarantor) to assume the debt obligation of a borrower if that borrower defaults; disposal of assets means the gain or loss calculated as the net disposal proceeds, minus the asset’s carrying value.
Loans Guarantees - 5		
Disposal of assets - 10		
Ownership changes - 8	Change of equity structure (E)	
Split share structure reform – 11		
Mergers and acquisitions - 6	Growth strategies (F)	
Use of IPO proceeds and financing - 9		

This table reports the specific major topics discussed in the board meetings of Chinese listed firms. The eleven categories (by CSMAR code) of meetings are based on the *Code of Corporate Governance* in China (2001). We combine some topics as they have similar effects.

**TABLE 2** Sample distribution and descriptive statistics for six types of meetings across industries

				(A) Nomination		(B) Compensation		(C) Financial reports and audit		(D) Corporate control transactions		(E) Change of equity structure		(F) Growth strategies	
	Firms	%	Obs	Mean	Std	Mean	Std	Mean	Std	Mean	Std	Mean	Std	Mean	Std
A	37	2.05	290	0.945	1.230	0.134	0.415	0.314	0.553	1.362	1.542	0.103	0.376	0.469	1.069
B	70	3.88	446	1.018	1.342	0.215	0.556	0.453	0.698	2.085	2.300	0.043	0.233	0.390	0.821
C	903	50.00	8,180	0.919	1.261	0.240	0.665	0.421	0.680	1.778	1.993	0.120	0.432	0.374	0.878
D	92	5.09	733	1.063	1.310	0.205	0.498	0.419	0.655	2.064	2.224	0.116	0.420	0.319	0.733
E	50	2.77	343	0.819	1.130	0.289	0.799	0.399	0.593	1.956	2.609	0.102	0.424	0.359	0.778
F	165	9.14	1,156	0.966	1.234	0.234	0.651	0.416	0.629	1.559	1.857	0.103	0.398	0.283	0.706
G	83	4.60	716	0.997	1.326	0.187	0.483	0.297	0.581	1.647	1.888	0.073	0.335	0.228	0.619
H	11	0.61	96	1.344	1.672	0.115	0.380	0.688	0.685	1.896	1.462	0.125	0.391	0.469	0.962
I	62	3.43	409	0.951	1.346	0.386	0.920	0.408	0.662	1.257	1.648	0.132	0.440	0.340	0.863
J	159	8.80	1,101	1.018	1.252	0.291	0.755	0.480	0.697	1.917	2.323	0.079	0.333	0.262	0.848
K	24	1.33	155	0.929	1.249	0.174	0.444	0.426	0.654	1.394	1.753	0.148	0.532	0.374	0.815
L	31	1.72	122	0.984	1.178	0.385	0.922	0.672	0.886	1.508	1.750	0.172	0.585	0.484	0.998
M	24	1.33	115	1.261	1.481	0.365	0.753	0.626	0.789	1.896	1.739	0.026	0.208	0.835	1.249
N	95	5.26	497	0.710	1.129	0.177	0.509	0.374	0.626	1.262	1.598	0.193	0.542	0.165	0.476
Total	1,806	100	14,359												

The table shows the distribution of sample firms in 2005-2015 across industries based on *the Guidance on the Industry Category of Listed Companies* issued by the CSRC (2012 version). A = Agriculture, B = Mining, C = Manufacturing, D = Electricity, gas and water, E = Building and construction, F = Wholesale and retail trade, G = transportation and logistics, H = Accommodation and Catering Industry, I = Information technology, J = Real estate, K = Commerce, L = Water, environment and public facilities management, M = Culture, sports and entertainment, N = Synthesis.



**TABLE 3** CEO dismissal, compensation and board meetings*Panel A: Annual CEO dismissal rate, executive compensation and board meeting frequency*

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Obs.	1,245	1,272	1,247	1,249	1,255	1,307	1,334	1,354	1,352	1,367	1,368	14,359
CEO dismissal rate	0.189	0.189	0.167	0.166	0.163	0.176	0.164	0.14	0.182	0.2	0.219	0.178
Compensation (RMB 000s)	230.904	259.874	357.544	397.479	440.288	524.065	598.143	637.598	684.047	738.408	802.093	528.059
Annual meeting frequency	7.504	8.227	9.874	9.768	8.712	9.01	9.388	9.806	9.158	9.703	10.711	9.277

*Panel B: Meeting frequencies on major topics*

Observations = 14,359	Mean	Median	Std	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
(A) Nomination	0.942	0.000	1.267	397	450	512	695	687	1169	1223	1312	1716	2061	2305
(B) Compensation	0.240	0.000	0.656	96	45	35	103	95	255	316	344	548	688	915
(C) Financial reports and audit	0.420	0.000	0.669	355	296	186	147	232	369	374	643	808	1202	1418
(D) Corporate control transactions	1.743	1.000	2.011	1381	1337	1531	1815	1834	2293	2142	2818	3138	3240	3502
(E) Change of equity structure	0.113	0.000	0.418	180	1055	121	63	58	37	11	38	20	8	26
(F) Growth strategies	0.346	0.000	0.840	119	106	147	209	294	303	474	466	696	817	1342

*Panel C: The differences of topic focused meeting frequencies between groups based on firm size*

	Small firms (S)		Median firms (M)		Large firms (L)		Two sample mean t-test		
	Obs. = 4,738		Obs. = 4,737		Obs. = 4,882		Diff (S – M)	Diff (M – L)	Diff (S – L)
	Mean	Std	Mean	Std	Mean	Std	<i>t</i> statistics	<i>t</i> statistics	<i>t</i> statistics
(A) Nomination	0.849	1.222	0.928	1.223	1.046	1.342	-3.165 ***	-4.474 ***	-7.515***
(B) Compensation	0.129	0.438	0.245	0.653	0.342	0.804	-10.199 ***	-6.472 ***	-16.092 ***
(C) Financial reports and audit	0.423	0.683	0.413	0.657	0.424	0.667	0.747	-0.836	-0.074
(D) Corporate control transactions	1.228	1.464	1.727	1.821	2.26	2.465	-14.700 ***	-12.025 ***	-24.868 ***
(E) Change of equity structure	0.170	0.505	0.118	0.43	0.052	0.282	5.378 ***	8.867 ***	14.136 ***
(F) Growth strategies	0.171	0.562	0.393	0.888	0.471	0.978	-14.537 ***	-4.092 ***	-18.376 ***

(continued on next page)

Table 3 (Continued)

*Panel D: Meeting frequencies on all eleven topics in CSMAR database*

Type of meeting	Mean	Median	Std	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
M1	0.942	0.000	1.267	397	450	512	695	687	1,169	1,223	1,312	1,716	2,061	2,305
M2	0.240	0.000	0.656	96	45	35	103	95	255	316	344	548	688	915
M3	0.383	0.000	0.620	337	211	112	130	192	326	331	606	755	1,136	1,365
M4	1.150	1.000	1.394	1,054	966	1,120	1,435	1,154	1,589	1,381	1,866	1,988	1,957	1,999
M5	0.478	0.000	1.128	235	321	352	347	601	564	635	815	872	959	1,168
M6	0.117	0.000	0.431	64	57	93	89	133	107	166	176	176	190	424
M7	0.037	0.000	0.203	18	85	74	17	40	43	43	37	53	66	53
M8	0.032	0.000	0.205	179	54	38	19	43	36	9	35	16	8	26
M9	0.230	0.000	0.686	55	49	54	120	161	196	308	290	520	627	918
M10	0.115	0.000	0.400	92	50	59	33	79	140	126	137	278	324	335
M11	0.080	0.000	0.361	1	1,001	83	44	15	1	2	3	4	0	0

This table reports the rate of CEO dismissal, the executive compensation (the average of the three highest-paid executives' compensation), the annual number of board meetings, and the frequencies of board meetings on major topics, in Chinese public firms from 2005 to 2015. In panel A, the CEO dismissal rate refers to the percentage of CEO dismissals in the single year. Executive compensation (000s RMB) is the average compensation of the three highest-paid executives and directors, including basic salary, bonuses, and other benefits. Annual number of board meetings expresses the average frequency of board meetings. Panel B shows the frequencies of meetings on the six major topics individually: nomination (A), compensation (B), financial reports and audit (C), corporate control transactions (D), change of equity structure (E) and growth strategies (F). Panel C illustrates that topic-specific meeting frequencies vary with firm size. Firm year observations have been grouped into small firms (S-the lower third of the distribution), median firms (M-the median third) and large firms (L-the higher third). Panel D demonstrates the frequencies of meetings on original 11 topics in CSMAR database individually, where M1 = Personnel, M2 = Compensation, M3 = Financial report and pay out policies, M4 = Related-party transactions, M5 = Loans Guarantees, M6 = Disposal of assets, M7 = Audit, M8 = Ownership changes, M9 = Use of IPO proceeds and financing, M10 = Disposal of assets, M11 = Split share structure reform.

**TABLE 4** Descriptive statistics for main variables

	Definition	Mean	Median	Std	Q1	Q3	N
ROA	Net profit divided by total assets	0.039	0.040	0.058	0.021	0.065	14,359
Industry adjusted ROA	The firm' ROA minus the mean of ROA in the same industry	0.000	0.002	0.057	-0.017	0.025	14,359
Age	CEO age	51.515	51.000	6.999	47.000	56.000	12,490
Female	A dummy variable equals one if CEO is female	0.036	0.000	0.186	0.000	0.000	14,359
Board size	Logarithm of number of directors	9.194	9.000	1.928	8.000	10.000	14,246
Duality	An indicator equals one if the same person acts as CEO and chairman, and zero otherwise	0.139	0.000	0.346	0.000	0.000	13,645
Independent directors %	Fraction of independent directors on board	0.365	0.333	0.053	0.333	0.375	14,246
Largest shareholding%	Shares held by largest shareholders	31.692	29.445	17.625	17.718	44.050	13,577
State-owned enterprises	Dummy equals one if the firm is controlled by the state or government agencies, and zero otherwise	0.656	1.000	0.475	0.000	1.000	14,359
Ownership Concentration	<i>Herfindahl_index</i> - Sum of squares of shareholding percentage of top five shareholders	0.175	0.141	0.128	0.073	0.252	14,359
Leverage	Total liability over total assets	21.983	21.870	1.410	21.032	22.804	14,359
Log(firm size)	Log value of firm's total assets	7.614	7.690	1.527	6.774	8.559	14,315
Log(employees)	Logarithm of number of employees in the firm	0.039	0.040	0.058	0.021	0.065	14,359
Industry adjusted compensation	The firm's compensation minus the average of compensation in the same industry based on CSRC industry code in the fiscal year	0.000	0.015	0.747	-0.463	0.463	14,294
Excess Compensation	The residual from the regression of CEO compensation on more firm characteristics (e.g. size, performance) within the same industry and year (see details in Footnote 7)	0.000	0.0270	0.668	-0.415	0.418	14,140

The table provides definitions and descriptive statistics for the main variables. The sample contains firm-years from 2005 to 2015.

**TABEL 5** The effects of meetings on the six major topics on the sensitivity of CEO dismissal to firm performance

CEO dismissal	(A) Nomination		(B) Compensation		(C) Financial reports and audit		(D) Corporate control transactions		(E) Change of equity structure		(F) Growth strategies	
	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)
ROA <sub>t-1</sub>	-3.277*** (0.709)	-3.419*** (0.712)	-2.400*** (0.621)	-2.301*** (0.626)	-2.408*** (0.679)	-2.410*** (0.667)	-2.133*** (0.763)	-2.426*** (0.704)	-2.603*** (0.617)	-2.655*** (0.615)	-2.694*** (0.627)	-2.735*** (0.636)
Topic-focused meeting <sub>t-1</sub>	-0.180*** (0.029)	-0.291*** (0.065)	-0.174*** (0.067)	-0.327*** (0.103)	0.097* (0.056)	0.164* (0.085)	-0.005 (0.018)	-0.011 (0.066)	0.044 (0.076)	-0.053 (0.128)	-0.138*** (0.050)	-0.269*** (0.086)
ROA <sub>t-1</sub> × topic-Focused meeting <sub>t-1</sub>	0.649* (0.388)	2.364** (1.096)	-0.894 (1.398)	-1.974 (1.869)	-0.253 (0.676)	-0.504 (1.306)	-0.259 (0.309)	-0.312 (1.115)	0.631 (1.294)	2.260 (2.345)	0.765 (0.998)	1.244 (1.576)
Age <sub>t-1</sub>	0.061*** (0.006)	0.061*** (0.006)	0.062*** (0.006)	0.061*** (0.006)	0.062*** (0.006)	0.062*** (0.006)	0.062*** (0.006)	0.062*** (0.006)	0.062*** (0.006)	0.062*** (0.006)	0.062*** (0.006)	0.062*** (0.006)
Female <sub>t-1</sub>	-0.452** (0.208)	-0.431** (0.207)	-0.452** (0.207)	-0.450** (0.207)	-0.430** (0.207)	-0.431** (0.207)	-0.438** (0.207)	-0.439** (0.207)	-0.438** (0.207)	-0.435** (0.207)	-0.427** (0.207)	-0.426** (0.207)
Board size <sub>t-1</sub>	-0.024 (0.030)	-0.026 (0.030)	-0.027 (0.030)	-0.026 (0.030)	-0.027 (0.030)	-0.027 (0.030)	-0.028 (0.030)	-0.028 (0.030)	-0.028 (0.030)	-0.028 (0.030)	-0.026 (0.030)	-0.027 (0.030)
Duality <sub>t-1</sub>	-0.327** (0.158)	-0.342** (0.157)	-0.346** (0.156)	-0.345** (0.157)	-0.361** (0.157)	-0.360** (0.157)	-0.347** (0.156)	-0.350** (0.156)	-0.351** (0.156)	-0.349** (0.156)	-0.345** (0.157)	-0.349** (0.157)
Independent directors % <sub>t-1</sub>	1.186 (0.840)	1.184 (0.839)	1.144 (0.835)	1.156 (0.835)	1.099 (0.835)	1.108 (0.835)	1.089 (0.834)	1.089 (0.834)	1.077 (0.835)	1.079 (0.834)	1.116 (0.835)	1.104 (0.835)
Largest shareholding% <sub>t-1</sub>	-0.004 (0.005)	-0.004 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.004 (0.005)	-0.004 (0.005)	-0.003 (0.005)	-0.003 (0.005)
State-owned enterprises <sub>t-1</sub>	0.153 (0.149)	0.152 (0.149)	0.152 (0.149)	0.155 (0.149)	0.165 (0.149)	0.163 (0.149)	0.164 (0.149)	0.163 (0.149)	0.161 (0.149)	0.163 (0.149)	0.147 (0.149)	0.148 (0.149)
Ownership Concentration <sub>t-1</sub>	-0.618 (0.662)	-0.636 (0.660)	-0.743 (0.658)	-0.706 (0.658)	-0.706 (0.658)	-0.723 (0.658)	-0.688 (0.658)	-0.700 (0.658)	-0.690 (0.658)	-0.711 (0.658)	-0.814 (0.661)	-0.800 (0.660)
Log(employees) <sub>t-1</sub>	-0.021 (0.057)	-0.021 (0.057)	-0.015 (0.056)	-0.015 (0.056)	-0.008 (0.056)	-0.010 (0.056)	-0.012 (0.056)	-0.013 (0.056)	-0.011 (0.056)	-0.013 (0.056)	-0.012 (0.056)	-0.010 (0.056)
Log(firm size) <sub>t-1</sub>	-0.171** (0.074)	-0.172** (0.074)	-0.166** (0.074)	-0.167** (0.074)	-0.176** (0.074)	-0.175** (0.074)	-0.174** (0.074)	-0.177** (0.074)	-0.176** (0.074)	-0.173** (0.074)	-0.155** (0.075)	-0.157** (0.074)

Leverage <sub>t-1</sub>	0.348*	0.373*	0.320	0.315	0.347*	0.346*	0.338*	0.338*	0.334*	0.333*	0.286	0.282
	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)	(0.203)	(0.203)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year&Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wald $\chi^2$	266.436	253.032	233.729	237.701	229.431	230.207	226.866	226.207	226.685	227.218	234.922	237.079
Firm-years	8,174	8,174	8,174	8,174	8,174	8,174	8,174	8,174	8,174	8,174	8,174	8,174

This table presents series of logistic regressions with fixed effects. CEO dismissal is the dependent variable, which equals one if the CEO is dismissed, and zero otherwise over the period 2005-2015. ROA is an industry-adjusted ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-specific meetings are defined as (1) is the annual meeting frequency for each topic and (2) a dummy variable indicating whether the annual meeting frequency above the median for distribution within the same year for each topic from Column (A) to (F). The interaction terms between firm performance and topic-focused meeting frequency capture the meetings' moderate effects on the relationship between CEO dismissal and firm performance. Other variable definitions are provided in Table 4. \*p < .10, \*\*p < 0.05, \*\*\*p < 0.01.

**TABEL 6A** The effects of meetings on the six major topics on the sensitivity of industry adjusted compensation to firm performance

<i>Industry adjusted Compensation</i>	(A) Nomination		(B) Compensation		(C) Financial reports and audit		(D) Corporate control transactions		(E) Change of equity structure		(F) Growth strategies	
	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)	Number (1)	Dummy (2)
ROA <sub>t-1</sub>	1.195*** (0.139)	1.201*** (0.141)	1.076*** (0.124)	1.058*** (0.126)	1.171*** (0.136)	1.172*** (0.133)	1.000*** (0.150)	0.999*** (0.139)	1.027*** (0.124)	1.046*** (0.124)	0.987*** (0.127)	0.995*** (0.084)
Topic-focused Meeting <sub>t-1</sub>	0.008** (0.003)	0.015* (0.008)	0.040*** (0.010)	0.056*** (0.014)	0.010 (0.009)	-0.017 (0.012)	0.002 (0.003)	0.007 (0.009)	-0.002 (0.013)	0.016 (0.018)	0.007 (0.007)	0.015 (0.010)
ROA <sub>t-1</sub> × topic-focused-meeting <sub>t-1</sub>	-0.140** (0.068)	-0.391** (0.175)	-0.280 (0.192)	-0.136 (0.271)	-0.263 (0.145)	-0.523 (0.336)	0.034 (0.054)	0.156 (0.195)	0.208 (0.258)	0.075 (0.430)	0.309*** (0.119)	0.399** (0.193)
Board size <sub>t-1</sub>	0.010* (0.006)	0.011* (0.006)	0.011* (0.006)	0.011* (0.006)	0.010* (0.006)	0.010* (0.006)	0.011* (0.006)	0.011* (0.006)	0.011* (0.006)	0.011* (0.006)	0.011* (0.006)	0.011*** (0.004)
Duality <sub>t-1</sub>	-0.007 (0.022)	-0.007 (0.022)	-0.010 (0.022)	-0.010 (0.022)	-0.008 (0.022)	-0.008 (0.022)	-0.008 (0.022)	-0.008 (0.022)	-0.008 (0.022)	-0.008 (0.022)	-0.009 (0.022)	-0.009 (0.015)
Independent directors % <sub>t-1</sub>	0.241 (0.154)	0.242 (0.154)	0.247 (0.154)	0.247 (0.154)	0.242 (0.154)	0.241 (0.154)	0.243 (0.154)	0.242 (0.154)	0.243 (0.154)	0.244 (0.154)	0.244 (0.154)	0.243** (0.105)
Largest shareholding% <sub>t-1</sub>	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003*** (0.001)
State-owned enterprises <sub>t-1</sub>	-0.091** (0.037)	-0.091** (0.037)	-0.088** (0.037)	-0.089** (0.037)	-0.090** (0.038)	-0.091** (0.037)	-0.091** (0.038)	-0.092** (0.038)	-0.091** (0.038)	-0.091** (0.038)	-0.090** (0.038)	-0.090*** (0.019)
Ownership Concentration <sub>t-1</sub>	-0.044 (0.170)	-0.041 (0.170)	-0.022 (0.169)	-0.029 (0.170)	-0.038 (0.170)	-0.037 (0.170)	-0.041 (0.170)	-0.041 (0.170)	-0.039 (0.171)	-0.037 (0.171)	-0.031 (0.171)	-0.031 (0.085)
Log(employees) <sub>t-1</sub>	-0.010 (0.013)	-0.010 (0.013)	-0.010 (0.013)	-0.010 (0.013)	-0.010 (0.013)	-0.011 (0.013)	-0.010 (0.013)	-0.010 (0.013)	-0.011 (0.013)	-0.011 (0.013)	-0.011 (0.013)	-0.011 (0.007)
Log(firm size) <sub>t-1</sub>	0.195*** (0.019)	0.194*** (0.019)	0.191*** (0.019)	0.192*** (0.019)	0.196*** (0.019)	0.195*** (0.019)	0.194*** (0.019)	0.194*** (0.019)	0.195*** (0.019)	0.195*** (0.019)	0.192*** (0.019)	0.193*** (0.009)
Leverage <sub>t-1</sub>	-0.201*** (0.046)	-0.201*** (0.046)	-0.198*** (0.045)	-0.197*** (0.045)	-0.201*** (0.046)	-0.201*** (0.045)	-0.200*** (0.046)	-0.201*** (0.046)	-0.201*** (0.046)	-0.201*** (0.046)	-0.198*** (0.046)	-0.198*** (0.024)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.109	0.109	0.110	0.110	0.109	0.109	0.108	0.108	0.108	0.108	0.108	0.108

Firm-years	11,874	11,874	11,874	11,874	11,874	11,874	11,874	11,874	11,874	11,874	11,874	11,874
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This table reports results from panel data regressions with fixed effects over the period 2005-2015. Compensation is the industry adjusted compensation. ROA is an industry-adjusted measure of ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-focused meeting are define as (1) is the annual meeting frequency for each topic and (2) whether the annual meeting frequency above the median for distribution within the same year for each topic. Interaction terms between firm performance and the topic-focused meeting frequency capture the meetings' moderating effects on the relationship between compensation and firm performance. Other variable definitions are provided in Table 4. \*p < .10, \*\*p < .05, \*\*\*p < .01

**TABEL 6B** The effects of meetings on the six major topics on the sensitivity of excess compensation to firm performance

<i>Excess Compensation</i>	(A) Nomination	(B) Compensation	(C) Financial reports and audit	(D) Corporate control transactions	(E) Change of equity structure	(F) Growth strategies
ROA <sub>t-1</sub>	0.760*** (0.147)	0.621*** (0.129)	0.672*** (0.137)	0.655*** (0.155)	0.558*** (0.125)	0.561*** (0.086)
Topic-focused meeting <sub>t-1</sub>	0.016*** (0.005)	0.034*** (0.010)	0.011 (0.009)	0.000 (0.003)	-0.001 (0.016)	-0.000 (0.007)
ROA <sub>t-1</sub> × topic-focused meeting <sub>t-1</sub>	-0.155** (0.075)	-0.247 (0.211)	-0.161 (0.130)	-0.037 (0.060)	0.353 (0.245)	0.188* (0.113)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.245	0.245	0.244	0.244	0.244	0.244
Firm-years	11,765	11,765	11,765	11,765	11,765	11,765

This table reports results from panel data regressions with fixed effects. *Excess Compensation* is obtained by using the residual from the regression of CEO compensation on more firm characteristics (size, performance, board size, board independence and ownership concentration) within the same industry and year (details in Footnote 7). Firm performance is an industry-adjusted ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-focused meeting is the frequency of annual meetings for each topic. Interaction terms between firm performance and the topic-focused meeting capture the meetings' moderating effects on the relationship between compensation and firm performance. Other variable definitions are provided in Table 4. Models are estimated over the period 2005-2015. \*p < .10, \*\*p < .05, \*\*\*p < .01



**TABEL 7** The effects of meeting frequencies on nomination and growth strategy under different ownership structure.

<i>Panel A: The Effects of Nomination Meeting Frequency under Different Ownership Structure.</i>				
	(1) CEO dismissal		(2) Compensation	
	A. State-controlled firms	B. Non-state-controlled firms	A. State-controlled firms	B. Non-state-controlled firms
ROA <sub>t-1</sub>	-2.901*** (0.912)	-4.338*** (0.912)	1.482*** (0.119)	0.737*** (0.152)
Nomination meeting frequency <sub>t-1</sub>	-0.151*** (0.033)	-0.061 (0.042)	0.005 (0.005)	0.020*** (0.006)
ROA <sub>t-1</sub> × Nomination meeting frequency <sub>t-1</sub>	0.530 (0.524)	0.910* (0.509)	-0.038 (0.064)	-0.191** (0.080)
Control variables <sub>t-1</sub>	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year and Industry FE	Yes	Yes	Yes	Yes
Wald $\chi^2$	217.759	139.543		
Adj. R <sup>2</sup>			0.110	0.142
Firm-years	5,844	4,155	7,728	4,146

*Panel B: The Effects of Meeting Frequency on Growth Strategies under Different Ownership Structure.*

(2) Compensation		
	A. State controlled firms	B. Non-State controlled firms
ROA <sub>t-1</sub>	1.356*** (0.107)	0.484*** (0.136)
Growth strategies meetings <sub>t-1</sub>	-0.009 (0.009)	0.012 (0.012)
ROA <sub>t-1</sub> × Growth strategies meetings <sub>t-1</sub>	0.311** (0.141)	0.455** (0.182)
Control variables <sub>t-1</sub>	Yes	Yes
Firm FE	Yes	Yes
Year and Industry FE	Yes	Yes
Adj. R <sup>2</sup>	0.497	0.530
Firm-years	7,728	4,146

Panel A of this table reports panel data regression (with firm fixed effects) results of models linking the interaction terms of nomination meeting frequencies with firm performance to CEO dismissal and compensation from 2005 to 2015. CEO dismissal is the dependent variable, which equals one if the CEO is dismissed, and zero otherwise. ROA is an industry-adjusted measure of ROA. Nomination meeting frequency is the number of annual meetings on nomination. Interaction terms between ROA and the nomination meeting frequency capture the meetings' moderating effects on the relationship between CEO dismissal/compensation and firm performance. Panel B of this table shows panel data regression (with firm fixed effects) results of models linking the interaction terms of meeting frequency on growth strategies with firm performance to compensation. Compensation is the industry adjusted compensation. Meeting frequency of growth strategies is the number of annual meetings on growth strategies. Interaction term between ROA and the meeting frequency of growth strategies captures the meetings' moderating effects on the relationship between CEO compensation and firm performance. Other variable definitions are provided in Table 4. The state controlled firms contain firms with state controlling shareholders, while non-state-controlled firms consists of firms with non-state controlled shareholders.

## Appendix A

An Examples of Independent Director' Reports. Compensation (2) and Loan Guarantees (5) were discussed on 27 April 2007 in board meeting of Wuhan Zhongnan Commercial Group Co., Ltd (WHZS, 000785).

**Stock trading code:** 000785 (SHE)

**Company name:** Wuhan Zhongnan Commercial Group Co., Ltd (WHZS)

**Announcement date:** 27 April 2007

**Independent directors:** Tan, Liwen; Li, Yanping; Xie, Huobao

**Topic code:** 2-Compensation; 5- Loan Guarantees

**Opinion type:** unqualified opinion

**Content:**

Pursuant to the "Guiding Opinions on Establishing Independent Directors in Listed Companies", "Shenzhen Stock Exchange Listing Rules", "Articles of Association", and other related regulations, we would like to issue the following opinion on WHZS's following two following issues passed at the fourth meeting of the sixth session of the board of directors:

First, to our best knowledge, we agree that compensations of directors and senior management in 2006 have meet the plan requirements-" the implementation plan of company directors and senior management compensation in 2006" approved by the annual General Meeting (2005).

Second, based on the annual report 2006 of WHZS, the audit report 2006 (2007-421), and the "Special statement of controlling shareholders and other related parties possessing fund of the listed firm"(2007-148) provided by Wuhan Zhonghuan Accounting Firms, we have carefully examined the incurred and accumulative amount of loan guarantees, we believe the loan guarantees for subsidiary companies in 2006 was 160 million RMB, accumulated to 260 million. No other loan guarantees for related parties happened in 2006.

**Appendix B**  
Correlation of Main Variables.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 CEO dismissal	1																			
2 Compensation	-0.07**	1																		
3 Nomination	0.23**	0.10**	1																	
4 Compensation	0	0.22**	0.21**	1																
5 Financial reports and audit	0.03**	0.05**	0.27**	0.22**	1															
6 Corporate control transactions	0.04**	0.15**	0.21**	0.14**	0.23**	1														
7 Change of equity structure	0.01	-0.15**	-0.08**	-0.06**	-0.04**	-0.06**	1													
8 Growth strategies	-0.01	0.14**	0.16**	0.20**	0.19**	0.21**	-0.06**	1												
9 ROA	-0.08**	0.25**	-0.06**	0.05**	-0.10**	-0.01	0	-0.01	1											
10 Age	-0.13**	0.24**	-0.02+	0.07**	0	0.02*	-0.05**	0.05**	0.10**	1										
11 Female	0	0.01	0	0	-0.02**	-0.02*	0.01	0	0.01	-0.03**	1									
12 Board size	-0.04**	0.11**	0	-0.01	-0.09**	0.02*	0.03**	-0.02+	0.05**	0.06**	-0.01+	1								
13 Duality	0.01	-0.02+	0.01	0.05**	0.08**	-0.03**	0	0.03**	-0.03**	-0.01	-0.01+	-0.12**	1							
14 Independent directors %	0.02**	0.07**	0.03**	0.06**	0.06**	0.03**	-0.06**	0.07**	-0.02**	0.02**	-0.02*	-0.32**	0.05**	1						
15 Largest shareholding%	0.02*	0.08**	0	-0.01	-0.07**	0.02+	-0.03**	0.01	0.10**	0.09**	-0.01	0.06**	-0.12**	0.06**	1					
16 State-owned enterprises	0.05**	0	-0.04**	-0.13**	-0.11**	0.02**	0.01	-0.08**	-0.02*	0.06**	-0.03**	0.20**	-0.17**	-0.05**	0.39**	1				
17 Ownership Concentration	0.02+	0.07**	0	-0.02**	-0.08**	0.04**	-0.02*	-0.02*	0.13**	0.07**	-0.01	0.08**	-0.12**	0.03**	0.76**	0.24**	1			
18 Log(employees)	-0.05**	0.31**	0	0.08**	-0.05**	0.13**	-0.05**	0.09**	0.13**	0.20**	-0.04**	0.26**	-0.07**	0.02**	0.22**	0.24**	0.25**	1		
19 Log(firm size)	-0.04**	0.54**	0.05**	0.13**	-0.02**	0.20**	-0.11**	0.12**	0.17**	0.24**	-0.02**	0.25**	-0.10**	0.10**	0.34**	0.23**	0.35**	0.68**	1	
20 Leverage	0.05**	-0.09**	0	-0.04**	0.02*	0.08**	0.01	-0.07**	-0.18**	-0.09**	0	0.01	0.01	0.02*	-0.05**	-0.02*	-0.04**	-0.01	0.04**	1

CEO dismissal is a dichotomous variable, which equals one if the CEO is dismissed, and zero otherwise. Compensation is equal to the nature logarithm of the average of the three highest-paid executives' compensation. Other variables are lagged values. Meetings definitions are provided in Table 1, and other independent variable definitions are shown in Table 2. †p < .10, \*p < .05, \*\*p < .01

## Appendix C

Dynamic Panel Data Analysis on the Effects of Meetings on the Six Major Topics on the sensitivity of CEO compensation to firm Performance.

	(A)	(B)	(C)	(D)	(E)	(F)
	Nomination	Compensation	Financial reports and audit	Corporate control transactions	Change of equity structure	Growth strategies
Compensation t-1	0.352*** (0.049)	0.259*** (0.071)	0.153* (0.081)	0.344*** (0.104)	0.259*** (0.052)	0.256*** (0.075)
ROA t	0.709*** (0.157)	1.022** (0.462)	1.556*** (0.596)	1.913** (0.748)	0.704* (0.402)	0.083 (0.457)
Topic-focused meeting t	0.011** (0.005)	-0.019 (0.049)	0.031 (0.038)	0.003 (0.019)	-0.191** (0.077)	0.256*** (0.037)
ROAt × topic-focused-meetings t	-0.188*** (0.070)	-0.130 (0.510)	-0.531 (0.387)	0.302 (0.245)	1.282 (1.030)	1.268** (0.580)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	9,774	9,774	9,774	9,774	9,774	9,774
AR(1) p-value	0.00	0.00	0.00	0.00	0.00	0.00
AR(2) p-value	0.13	0.13	0.61	0.07	0.09	0.30
Over-identification test p-value	0.13	0.11	0.152	0.26	0.26	0.21

The table reports the regression results with dynamic GMM estimator. Compensation is the industry adjusted compensation. ROA is an industry-adjusted measure of ROA. Nominations (A), compensation (B), financial reports and audit (C), firm control transactions (D), changes of equity structure (E) and growth strategies (F) are the major topics discussed. Topic-focused meeting frequency is the frequency of annual meetings on each topic. Interaction terms between firm performance and the topic-focused meeting frequency capture the meetings' moderating effects on the relationship between compensation and firm performance. Other variable definitions are provided in Table 3. Models are estimated over the period 2005-2015. \*p < .10, \*\*p < .05, \*\*\*p < .01